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FORTYSECOND
ANNUAL REPORT
1997 - 98

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FACOR

FERRO ALLOYS CORPORATION LIMITED

FERRO ALLOYS CORPORATION LIMITED**Board of Directors**

Umashankar Agrawal
Chairman & Managing Director

R.K. Saraf
Vice-Chairman & Jt. Managing Director

Eruch B. Desai

Shravan Kumar, I.A.S.(Retd.)
Nominee of A.P. Industrial
Development Corporation Limited

M.D. Vaidya
Nominee of Life Insurance
Corporation of India

A. S. Kapre
Nominee of Industrial Credit &
Investment Corporation of India Limited

R.N. Buch
Nominee of Bank of India

K. Srinivasamurthy

M.B. Thaker

Govinddas Agrawal

Jamnadhhar Mor

Chandrakant Mor
Executive Director

Manoj Saraf
Executive Director

Secretary
V.V. Somasundaran

Executives

Vineet Saraf
Sr. President

Ashish Saraf
President

Rohit Saraf
President

R.D. Agarwal
Advisor

D.S. Agarwal
Principal Advisor

O.P. Banka
Sr. General Manager

K.S. Mallya
Advisor (Marketing)

Sudhir Gupta
General Manager (Marketing)

C.N. Harman
Sr. Technical Director

M.S.S. Sarma
General Manager
(Shreeramnagar Works)

B.B. Singh
Technical Director
(Charge Chrome Works)

R.L. Khandella
General Manager
(Charge Chrome Works)

Ashok Agarwal
Chief Executive (Mines)

M.K. Pujari
General Manager (Mines)

D.B. Mohoril
Chief Executive (Steel Division)

S.K. Tara
Sr. General Manager (Technical)
(Steel Division)

P.D. Lele
General Manager (Co-ordination)
(Steel Division)

P.V. John
General Manager (R.M.S.)
(Steel Division)

Bankers

Bank of India

Central Bank of India

State Bank of India

Bank of America N.T. & S.A.

Syndicate Bank

State Bank of Bikaner & Jaipur

Solicitors

Mulla & Mulla, and
Craigie Blunt & Caroe

Bhaishanker Kanga
and Girdharlal

Auditors

Salve And Co.
Chartered Accountants

Internal Auditors

D.C. Dhupia & Co.
Chartered Accountants

M.M. Jain
Chartered Accountant

Share Department

Shreeram Bhavan,
Tumsar - 441 912
Maharashtra.

FERRO ALLOYS CORPORATION LIMITED**42****FORTYSECOND
ANNUAL REPORT
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Notice is hereby given that the **FORTYSECOND ANNUAL GENERAL MEETING** of the Members of the Company will be held at Shri Durgaprasad Saraf Atithi Graha at Tumsar 441 912 (Maharashtra) on Friday, the 25th September, 1998 at 11.00 A.M. to transact, with or without modifications as may be permissible, the following business:

1. To receive, consider and adopt the Audited Balance Sheet as at 31st March, 1998 and Profit & Loss Account for the year ended on that date and the Reports of the Board of Directors and the Auditors thereon.
2. To appoint a Director in the place of Shri Jamnadhhar Mor, who retires from office by rotation and, being eligible, offers himself for re-appointment.
3. To appoint a Director in the place of Shri M.B. Thaker, who retires from office by rotation and, being eligible, offers himself for re-appointment.
4. To appoint a Director in the place of Shri R.K. Saraf, who retires from office by rotation and, being eligible, offers himself for re-appointment.
5. To consider and, if thought fit, to pass the following resolution which will be proposed as a Special Resolution:

"RESOLVED, that pursuant to the provisions of Section 224A and other applicable provisions, if any, of the Companies Act, 1956 Messrs Salve And Company, Chartered Accountants, the retiring Auditors of the Company, be and they are hereby re-appointed Auditors of the Company to hold office from the conclusion of this meeting until the conclusion of the next Annual General Meeting of the Company on such remuneration as may be fixed by the Board of Directors in consultation with the Auditors plus travelling and other incidental expenses incurred by them incidental to their functions."

AS SPECIAL BUSINESS :

6. To consider and, if thought fit, to pass the following resolution which will be proposed as a Special Resolution:

"RESOLVED that the Board of Directors of the Company be and is hereby authorised to decide and apply to such of the non-regional stock exchanges for delisting the Company's equity shares listed with them as may be deemed necessary by it in the interest of the Company.

RESOLVED FURTHER that the Board of Directors be and is hereby authorised to take such steps and to make such arrangements as may be necessary or expedient and to do all such acts, deeds, matters and things as may be required to comply with the guidelines for voluntary delisting issued by Securities & Exchange Board of India (SEBI) and/or the concerned stock exchanges so as to give effect to this resolution and to resolve any question relating thereto and otherwise considered by the Board to be in the best interest of the Company."

7. To consider and, if thought fit, to pass the following resolution which will be proposed as an Ordinary Resolution:

"RESOLVED that the consent of the Company be and is hereby accorded pursuant to the provisions of Section 293 (1)(a) and all other applicable provisions, if any, of the Companies Act, 1956 to the Board of Directors of the Company ("the Board") mortgaging and/or charging, subject to such consents, if any, as may be necessary from the existing mortgagees and chargeholders, on such terms and conditions and at such time or times and in such form and manner and with such ranking as to priority or otherwise as the Board may in its absolute discretion think fit, the whole or substantially the whole of the Company's any one or more of the undertaking(s) or of all the

undertakings, including the present and/or future properties, wheresoever situate, whether movable or immovable, belonging or to belong to the Company, comprised in any undertaking or undertakings of the Company, as the case may be, to or in favour of the respective lenders advancing finance to the Company, including in particular the Trustees for the holders of the 2,64,416 - 20% Secured Redeemable Non-convertible Debentures of Rs.100/- each, privately placed with the Industrial Credit & Investment Corporation of India Limited (ICICI), for securing the said Non-convertible Debentures of the aggregate nominal value of Rs.2,64,41,600/- together with interest, compound interest, additional interest at the respective agreed rates, liquidated damages, costs, charges, expenses, remuneration of Trustees and all other moneys payable by the Company to the Lenders/Debentureholders and the Trustees under the letters of sanction and/or memorandum of terms & conditions and/or debenture issue/ subscription/loan agreements entered into/to be entered into by the Company in respect of the said Debentures/ Loans and as may be agreed to by the Board.

RESOLVED FURTHER that the Board be and is hereby authorised to finalise, settle and execute with any or all concerned parties aforesaid, such agreements/deeds/writings/papers and any other documents as may be required in relation to or for creating the mortgages and/or charges aforesaid, including documents for any pari passu or other arrangement and for reserving the aforesaid right and to do all such acts, deeds and things as may be necessary or expedient for giving effect to this resolution and to resolve any question relating thereto and otherwise considered by the Board to be in the best interest of the Company."

NOTES :

1. The relevant explanatory statement pursuant to Section 173 of the Companies Act, 1956 in respect of Items 5 to 7 of the notice set out above is annexed hereto.
2. A MEMBER ENTITLED TO ATTEND AND VOTE IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF AND THE PROXY NEED NOT BE A MEMBER OF THE COMPANY.
3. The Register of Members and Share Transfer Books of the Company will remain closed from 18th September, 1998 to 25th September, 1998, both days inclusive.
4. All requests received from Members for change of address will be entertained only when shareholders' signatures on the letter intimating change of address tally with the specimen signatures recorded with the Company. While notifying change in address please ensure that the address is complete and the pin code number is clearly mentioned. Incorrect/Incomplete address may lead to non-delivery of documents/communications sent to you from the Company.
5. Members are requested to quote Folio Numbers in all correspondence.
6. Shareholders intending to require information about accounts to be explained at the meeting are required to furnish the queries to the Company atleast 10 (ten) days in advance of the Annual General Meeting.

By Order of the Board,

Registered Office :
Shreeram Bhavan,
TUMSAR-441 912
(Maharashtra)

V.V. Somasundaran
Secretary

Dated : 3rd August, 1998.

Annexure to the Notice**Explanatory Statement as required by Section 173 of the Companies Act, 1956.****ITEM NO.5**

In terms of Section 224A of the Companies Act, 1956, if not less than 25% of the Subscribed Capital of a Company is held either singly or in combination by public financial institutions, government companies, the Central or State Governments, nationalised banks or insurance companies carrying on general insurance business, then the appointment or re-appointment of an auditor of that Company has to be made by a Special Resolution.

In the case of our Company, the aforesaid categories of shareholders together at present hold and are likely to continue to hold more than 25% of the Subscribed Capital at the date of ensuing Annual General Meeting of the Company. Hence it is necessary to pass a Special Resolution to re-appoint Messrs Salve and Company as Auditors of the Company. A certificate has been received from Messrs Salve and Company to the effect that their re-appointment, if made, will be in accordance with the limits specified in Section 224(1B) of the Companies Act, 1956.

ITEM NO.6

At the fortyfirst Annual General Meeting held on 25.9.97 the members had by an ordinary resolution authorised the Board of Directors to decide and apply to such of the non-regional stock exchanges for delisting the Company's equity shares listed with them as may be deemed necessary by the Board in the interest of the Company as the trading in the Company's equity shares on the non-regional stock exchanges was negligible and there was a considerable increase in the listing fee payable to them. Accordingly, in view of the above factors and as a measure of economy, the Board of Directors had decided to delist the Company's equity shares from the non-regional stock exchanges at Ahmedabad, Bhubaneswar, Calcutta, Hyderabad and New Delhi and applications for delisting the Company's shares were made to these stock exchanges. As desired by some of these stock exchanges, the Company had also approached the Ministry of Finance/SEBI for their approval. However, the Company has been now advised by SEBI to comply with their guidelines dated 29.4.1998 for voluntary delisting by Companies which, inter alia, require approval of shareholders by a special resolution passed at the General Meeting instead of by an ordinary resolution as done earlier. Accordingly, this resolution is commended for your approval. The Directors holding shares in the Company may be deemed to be concerned or interested in the resolution to the extent of their shareholding.

ITEM NO.7

The Company had purchased certain equipments under the lease finance scheme of the Industrial Credit & Investment Corporation of India Limited (ICICI) and had also taken loans for setting up captive power plants from Financial Institutions including ICICI and Consortium Banks. Due to losses suffered by the Company it was not possible to make certain payments to the Financial Institutions including ICICI. At the request of the Company ICICI, however, agreed to convert some of the overdue payments aggregating to Rs.2,64,41,600/- into Non-convertible Debentures. Accordingly, the Company had issued and allotted to ICICI on 22.11.1997 on private placement basis 264416 - 20% Secured Non-convertible Debentures of Rs.100/- each of the aggregate nominal value of Rs.2,64,41,600/- redeemable in 32 quarterly instalments commencing from 15.2.1998 to 15.11.2005. These debentures are secured/to be secured by charging/mortgaging the movable and immovable properties of the Company.

Section 293 (1) (a) of the Companies Act, 1956 provides, inter alia, that the Board of Directors of a Public Company shall not without the consent of such Public Company in General Meeting, sell, lease or otherwise dispose of the whole or substantially the whole of any such undertaking of the Company, or where the Company owns more than one undertaking, of the whole or substantially the whole of each such undertaking. Since the mortgaging and/or charging by the Company of its immovable and movable properties to secure the above Debentures may be regarded as disposal of the Company's properties/undertakings, it is desirable to pass a resolution in General Meeting of the Company under Section 293 (1)(a) of the Companies Act, 1956. A resolution in this behalf as proposed in this item of the Notice, is accordingly commended for your approval.

Registered Office:
Shreeram Bhavan,
TUMSAR-441 912
(Maharashtra)

By Order of the Board,

V.V. Somasundaran
Secretary

Dated : 3rd August, 1998.

Directors' Report to the Members

FACOR

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**FORTYSECOND
ANNUAL REPORT
1997-98**

The Directors submit the 42nd Annual Report on the business and operations of the Company and the Audited Statements of Accounts for the year ended 31st March, 1998.

FINANCIAL RESULTS :

	Year ended 31.3.98	Previous year ended 31.3.97
	(Rs.in lacs)	(Rs. in lacs)
Gross Profit/(Loss)	(3065.14)	(3759.09)
Depreciation	1383.82	1340.48
Provision for taxation (Wealth Tax)	4.00	3.00
Profit/(Loss) for the year	(4452.96)	(5102.57)
Refund of taxation for earlier years/ provision for taxation written back	0.18	79.98
Balance of Profit & Loss Account brought forward from last year	(6916.02)	(1893.43)
Balance carried to Balance Sheet	(11368.80)	(6916.02)

OVERALL PERFORMANCE :

During the year 1997-98, the working of the Company was once again adversely affected by various factors such as unremunerative prices of chrome products both in the international and domestic markets, over capacity, excess supplies, competition from small scale units enjoying certain concessions, availability of cheaper imported materials consequent upon drastic reduction in import duty on ferro alloys and increase in cost of production. Heavy burden of interest charges amounting to Rs.34.50 crores also contributed to this adverse position.

In spite of the aforesaid, the Company was able to achieve marginally higher turnover of Rs.388.45 crores as compared to Rs.382.33 crores in 1996-97. Exports constituted 39.03% of the turnover as against 40.28% in the previous year.

During the year 1997-98 average realisations on exports were slightly better than in the previous year on account of improvement in prices as well as US dollar - rupee parity which, inter alia, enabled the Company to reduce its loss to some extent as compared to the loss in the previous year.

REFERENCE TO BIFR:

As per the audited accounts as at 31.3.1998, the Company's networth stands fully eroded and accordingly the Company is required to make reference to BIFR as per the provisions of Section 15 of the Sick Industrial Companies (Special Provisions) Act, 1985 (SICA). Accordingly, a reference will be made within 60 days from the date of finalisation of the duly audited accounts of the Company i.e. the date on which the audited accounts of the Company are adopted at the Annual General Meeting of the Company as provided in Sub-section (1) of Section 15 of SICA.

DIVIDEND :

In view of the heavy loss, the Directors regret their inability to recommend any dividend for the financial year ended 31st March, 1998.

PROSPECTS :

The Ferro Alloys Industry has been passing through the worst period in its history. Due to the unprecedented recession, many ferro alloys units have either shut down their furnaces or are operating at lower capacity. Since your Company has captive sources of power and chrome ore to meet about 50% of the requirement, it has been somehow able to stay on in the industry despite the heavy odds.

Your Company does not face much difficulty in production and sale/ export of its products. Efforts are also being made to cut down, as far as possible, costs of production which are within the control of the Company. However, as you are aware, ferro alloys industry is a power intensive industry. Power constitutes about 30% to 50% of our cost of production depending upon the ferro alloys produced. The cost of power is several times higher in our country than in the competing countries of the world. Therefore, our cost of production remains very high making our exports totally unremunerative particularly due to rock-bottom prices for chrome products prevailing in the international market. Moreover, in the domestic market also because of high cost of production coupled with lower import duty, imported ferro alloys have become cheaper.

A representation has been made to the Central Government, inter alia, for (a) increasing import duty on ferro alloys (b) making required power available to the ferro alloys industry at internationally comparable tariff for export production from Central Government's 15% unallocated quota (c) supplying furnace oil/ LSHS at international price for use in DG sets set up by exporting units (d) abolition of excise duty on ferro alloys and (e) concession in railway freight for transport of raw materials and ferro alloys for export. Implementation of these measures by the Government should help the ailing ferro alloys industry to improve its performance.

Of late, due to diminution in value of Indian rupee against US dollar, realisation on exports of ferro alloys has improved. Since several countries have already devalued their currencies considerably, it is only appropriate that Indian rupee also be suitably devalued/adjusted to enable Indian exporters to remain competitive in the international markets and boost exports. To augment exports, your Company has represented to the Government to allocate additional 8 MW power which is under consideration of the Government.

FERRO ALLOYS DIVISION :

During the year 1997-98, the overall production of ferro alloys was higher than in the previous year despite shut-down of furnaces for various reasons including planned shut down, power cut imposed by APSEB and break down of DG set.

The power generated by the captive power plant during 1997-98 was 89.59 million KWH units as compared to 144.10 million KWH in the previous year. The lower generation of power was mainly due to low furnace loads, APSEB grid interruption and unforeseen break-down of DG set.

CHARGE CHROME DIVISION :

There was marginal increase of 4.12% in the production of charge chrome during the year under review as compared to the previous year. Production of briquettes was also slightly higher than in the year 1996-97. Consumption of briquettes constituted as much as 37% of the total charge of chrome ore.

The Captive Power Plant generated 116.26 million KWH units of power as against 106.52 million KWH units during the previous year.

STEEL DIVISION :

The overall production and sales were lower than in the previous year mainly due to depressed market condition specially in the second half when the recession in the automobile industry was also severe. The Furnace was closed for 53 days during the year for want of orders as well as scrap and due to transporters' strike. In order to reduce cost of scrap-mix, consumption of pig iron in the scrap-mix has been increased.

Export of bright bars increased substantially during the year although overall tonnage and value of exports were lower. Efforts are being made to consolidate and improve bright bar exports as there is a constantly growing demand for this product. Further, exports of stainless steel bars to the USA is expected to get further fillip as this country has exempted our Company from anti-dumping duty on the above product.

FINANCE :

1. The Company has issued and allotted 2,64,416 - 20% Secured Redeemable Non-convertible Debentures of Rs. 100/- each on 22nd November, 1997 to The Industrial Credit & Investment Corporation of India Limited as and by way of conversion of certain outstanding payments aggregating to Rs. 2,64,41,600/- payable to them by the Company.
2. Funds raised by the Company by issue of Debentures for working capital have been utilised for the said purpose.
3. As on 31.3.1998, 81 deposits amounting to Rs.3,64,000 which had matured, remained unclaimed. Out of these, 18 deposits amounting to Rs.90,500/- have since been repaid/renewed.
4. Due to the stringent financial position of the Company because of substantial loss suffered by it in the years 1996-97 and 1997-98, it could not pay certain dues to the Financial Institutions, Debentureholders etc. Matter is being pursued with them for necessary reschedulement/extension.

COST AUDITOR :

The Directors have appointed Mr. Shridhar K. Phatak, a practicing Cost Accountant, as Cost Auditor for the financial year 1998-99 for Company's Mini Steel Plant at Nagpur for which Central Government approval has been received.

AWARDS :

The Company has received EEPC All-India Award for export excellence for the year 1996-97 in the category "Prime Metal - Ferrous & Non-ferrous Exporters - Non-SSI" from Engineering Export Promotion Council. The Company has also been nominated as winner of the first prize for the outstanding export performance during 1996-97 for the product group category "Minerals & Ferro Alloys" by the Confederation of Export Units.

SUBSIDIARY :

The Report and Accounts of Best Minerals Limited, a subsidiary of the Company, for the period 1st April 1997 to 31st March 1998 are annexed alongwith statement pursuant to Section 212 of the Companies Act, 1956.

SOCIAL WELFARE AND INDUSTRIAL RELATIONS :

During the year the Company continued its various community development programmes. The industrial relations in the Company remained cordial and harmonious. The Directors place on record their appreciation of the devoted services rendered by the employees at all levels.

DIRECTORS :

During the year there were following changes in the Board of Directors of the Company. Bank of India nominated Shri R.N. Buch as Director in place of Shri R.K. Chhabra. In the place of Shri A. Karati ICICI has nominated Shri A.S. Kapre as a Director. Shri J.S. Mehrotra representing IFCI has resigned from the Board. The Directors place on record their appreciation of the services rendered by Shri R.K. Chhabra, Shri A. Karati and Shri J.S. Mehrotra.

Shri Jamnadhhar Mor, Shri M.B. Thaker and Shri R.K. Saraf, Directors of the Company, retire by rotation and, being eligible, offer themselves for re-election.

AUDITORS :

You are requested to appoint Auditors for the current year and to fix their remuneration.

The retiring Auditors M/s. Salve And Company, being eligible, offer themselves for re-appointment. They have furnished a certificate to the Company that the proposed re-appointment, if made, will be in accordance with sub-section (1B) of Section 224 of the Companies Act, 1956.

CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION, FOREIGN EXCHANGE EARNINGS AND OUTGO :

The statement giving details of conservation of energy, technology absorption, foreign exchange earnings and outgo, in accordance with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 is annexed and marked Annexure 'A' which forms part of this Report.

PARTICULARS OF EMPLOYEES :

In compliance with the provisions of Section 217(2A) read with the Companies (Particulars of Employees) Rules, 1975, a statement giving the requisite information is annexed hereto forming part of this Report.

On behalf of Board of Directors,

TUMSAR

Dated : 31st July, 1998.

UMASHANKAR AGRAWAL
CHAIRMAN

Annexure 'A' to the Directors' Report

Additional information as required under the Companies(Disclosure of particulars in the Report of Board of Directors) Rules, 1988.

A. CONSERVATION OF ENERGY :

- | | |
|--|---|
| a) Measures taken. | <ul style="list-style-type: none"> - Use of suitable reducing agents in the production of Silico Manganese. - Precise preparation of raw materials for feeding into the furnace for production of high carbon ferro chrome. - Electrode diameter and pitch circle have been suitably changed in the furnace to have better smelting. |
| b) Additional investment and proposals, if any, being implemented for reduction of consumption of energy. | <ul style="list-style-type: none"> - We have spent about Rs. 19.56 lacs on design and modification of furnace and in preparation of the materials. |
| c) Impact of measures at (a) and (b) for reduction of energy consumption and consequent impact on the cost of production of goods. | <ul style="list-style-type: none"> - The measures mentioned above have resulted in energy saving. It is, however, difficult to quantify the same and its impact on cost of production due to power cuts, load shedding etc. |
| d) Total energy consumption and energy consumption per unit of production in prescribed form 'A': | <ul style="list-style-type: none"> - As per Form 'A' attached. |

B. TECHNOLOGY ABSORPTION :

Research and development :

1. Specific areas in which R & D carried out by the Company.
 - Utilisation of by-products in the development of ceramic tiles.
 - External de-phosphorisation of molten ferro manganese metal.
2. Benefits derived as a result of above R & D. :
 - It will be possible to utilize waste products to make value added products.
 - Permits use of high phosphorus manganese ores and cokes in ferro manganese production.
3. Future plan of action :
 - To implement the above which are now under research and development.
4. Expenditure on Research & Development :
 - Expenditure on in-house Research & Development has been shown under appropriate heads of expenditure in the Profit & Loss Account.